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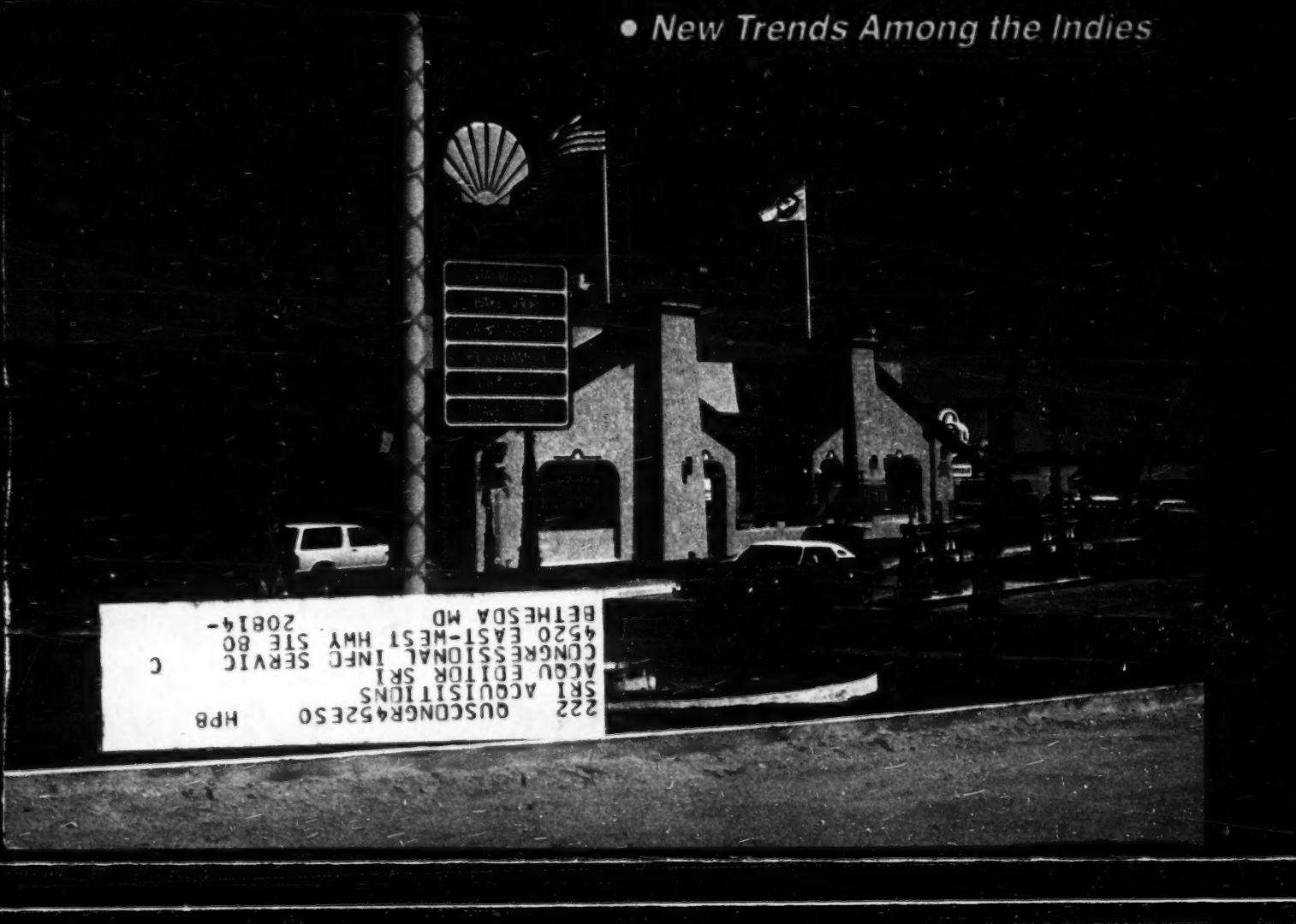
Is There a Bottom to Price Turmoil?
Trends: Majors Tighten Noose on Big Cities
How Farm Belt Jobbers are Coping

NPN
National Petroleum News

GRACE'S OASIS

How They Are Changing
Today's C-stores

- What the Majors are Doing
- New Trends Among the Indies



NATIONAL PETROLEUM NEWS

MAY 1986 VOL. 78 NO. 5

18 Regional News

18 West
Dealer wins radio contest with 0.1¢ gal. posting

19 East
Power Test wins $1 million verdict in 'gas' bootlegging

20 Midwest
Jobbers' fatter margins balanced by uncertain future

24 South
Rack/DTW spread prompts Texas class action suit

32 General News

32 Cash flow problems loom as major headaches for marketers

33 Oil industry assails plan to kill excise deductions

33 PMAA survey finds insurance costs tripled since 1983

34 Lead phasedown fuels gasoline quality woes

35 House vote prohibits lie detector testing

36 Arco's 'PayPoint' POS system to go on-line this month

37 Features

37 Cover Report
Today's C-stores: How they're changing for oil marketers

38 C-stores/Cover Report
Everything under single roof 'theme store' opens in desert

44 C-stores/Independents
Indies are setting the pace in convenience store innovations

48 C-stores/Major Oil Companies
What the oil companies are doing in C-stores

52 C-stores/Management
Arnold concentrates on fine-tuning his 100-store Road Runner chain

54 Farm Market
Farm jobbers tighten credit, diversify to stay afloat

56 Buyer's Guide Update
More suppliers/products & services

75 Legal—Sam Borenkind
Corporate officers can be held liable

76 Tax—Irving Blackman
Yes, you can get off LIFO inventory

Departments

78 About Oil People
13 Ahead of the News
15 Catching Up
81 Classified
11 Coming Meetings
14 Late News
5 Looking Things Over
61 O&E Briefs
72 New Literature
62 Product Showcase
16 Trends/Marketplace
58 Washington Report

Leading off our package of articles on convenience stores is a close-up look at a highly innovative multi-function "theme store" out in Mojave, Calif. This $2 million establishment has everything from fast food to an arcade. **Page 38**

From delis to laundromats, the diversity of retail facilities that independent marketers are tying into their C-stores is aimed at one thing—earning the most from available real estate. **Page 44**

Although the plight of America's farmers has moved off the front pages, their problems remain. Here's a look at what some jobbers are doing to maintain their farm accounts and stay afloat. **Page 54**

• LATE NEWS

Trial Judge Hints Error Made in Pennzoil Case

With a hint from the trial judge that he may have made an error, the picture brightened considerably for Texaco Inc. in its titanic legal struggle with Pennzoil Co.

Pennzoil, which sued Texaco and in December won a $10.5 billion verdict plus interest for interference in its acquisition attempt of Getty Oil Co., appeared to have suffered a setback last month, when Texas Judge Solomon Casseb Jr. said he may have been mistaken in a legal interpretation.

Casseb, who had affirmed the verdict and rebuffed Texaco's attempts to have him disqualified, now concedes, according to published reports, that he had been mistaken in his interpretation of New York law as applied to the Texaco case. Casseb was quoted as having told a questioner at the Los Angeles County Bar Assn. meeting on April 2 that "there is a good chance I may have read the cases wrong, and not have applied it (the law) correctly."

Texaco attorneys said they may seek to reopen their challenge to Casseb's qualifications and perhaps win a new trial.

Since the verdict was handed down in November, the stock prices of both Texaco and Pennzoil have been directly affected by any developments in the case. After this story appeared, financial markets responded by bidding up Texaco's stock while Pennzoil's fell.

Washington Dealers Win New Protection in Law

Dealers in Washington state mined most of the legislative nuggets they were prospecting for, with one notable exception, when Gov. Booth Gardner on April 4 signed into law the "Dealer Bill of Rights."

Effective June 30, the new law extends dealer franchise rights to include survivorship, assignment and first refusal on station sales. However, a provision that would have prevented supplier price discrimination to dealers in the same marketing area (a five-mile radius) was vetoed by the governor. He did, however, remove an exemption for small refiners, which will bring in independent and C-store chains such as Southland.

Highlights of the law include: limits on alteration of franchise terms without dealer approval; prohibition of minimum volume requirements unless the supplier's price is low enough to make the minimum attainable; a ban on suppliers' setting or compelling retail prices; and a ban on restrictive buying requirements, except for certain reasonable circumstances.

The Washington attorney general is directed under the law to investigate oil marketing practices in the state. Dealers anticipate the study "will lay the groundwork for additional dealer protection proposals," in the next session, says Tim Hamilton, executive director of the Automotive United Trades Organization, the dealer group that pushed the bill through the legislature.

Chevron to Shut Down Ohio Refinery in July

Chevron Corp. said it is shutting down all processing and terminal operations at its 43,700 b/d refinery in Cincinnati, Ohio, in early July, making it the second refinery the company has closed this year. Also, the company said it plans to sell its refinery in Puerto Rico.

William Bruner, refinery manager, says the proximity of the company's Gulf Coast refineries to crude oil sources and the nationwide excess of refining capacity were factors leading to the decision to close the Cincinnati plant.

Bruner added that the company began a review of Chevron's "entire refining and marketing needs east of the Rockies" following the merger of Gulf Oil Co. and Chevron that was concluded last year.

The company concluded that marketing needs and refining capacity in the Ohio River Valley could best be served using barge and pipeline delivery from the company's refineries at Pascagoula, Miss., and Port Arthur, Texas.

Chevron says the closing will not affect the supply of motor fuels, jet fuels and asphalt to the Cincinnati area.

The 200 employees at the Cincinnati refinery were notified of the decision in early-April. The company says it will explore employment opportunities for them at other Chevron locations. Chevron closed its refinery in Perth Amboy, N.J., in 1982 and another in Bakersfield, Calif., earlier this year. Also noted was the sale of the company's 38,000 b/d refinery in Puerto Rico and some 250 stations there to New York-based Carey Energy Corp.

Chevron Puts Pressure On Exxon in Texas

Chevron Corp., through its acquisition of Gulf Oil Co., is now challenging Exxon for the leader's role in the gigantic Texas market.

Exxon, however, retained the lead in tax paid gallonage in 1985 with 9.2% of the state market as compared to Chevron's 8.8%. Two convenience store chains were in last year's top 10 in Texas—Southland Corp. with 5.14% of the market and Circle K with 1.2%.

Following are the 10 top companies, their sales, and percent of market as reported by the Texas Oil Marketers Assn. from the state comptroller of public accounts:

Company	Gallons (in millions)	% of Market
Exxon	777.4	9.25
Chevron	743.9	8.85
Sigmor/Shamrock	588.9	6.95
Texaco	542.8	6.46
Southland	431.8	5.14
Shell	336.7	4.01
Mobil	307.4	3.66
Kempco Petro.	153.4	1.83
Circle K	104.9	1.25
Conoco	101.8	1.21

(Note: Since many branded distributors in Texas remit taxes direct, these reported figures are not a true indication of exact market share.)

• TRENDS

Majors' Grip on Big Cities Means Higher Dealer Prices

Back in the early 1980s when word was passed around that the major oil companies were staking out large metropolitan markets as their own preserves, independent marketers warned that the day would come when gasoline prices would be much higher in the big cities than in small towns.

Such a trend has apparently developed in Texas and other parts of the Southwest, although it is too early to determine if it will last.

In March, consumers in such large Texas markets as Houston, San Antonio and Dallas-Fort Worth were looking at pump prices ranging from 20¢ to 25¢ gal. higher than some being posted in many small towns around the state. In the Dallas-Fort Worth market, for example, postings for leaded regular were generally in the high 80¢, low 90¢ range. By comparison, independent marketers and a few branded dealers were posting in the high 60¢, low 70¢ range in small towns within 100 miles of these twin cities.

The wide price spreads between the two types of markets were beginning to raise some eyebrows. The Texas attorney general's office was talking about investigating the wide difference in both pump postings and in what jobbers and dealers were being charged for product by the majors. Some dealers were also threatening legal action (see Page 24).

Some independents say the stage was set for the present price disparity scene to develop three or four years ago.

At that time, they say, the major oil companies began switching to terminal pricing and away from the old system of pricing product to jobbers at a discount from their dealer tankwagon prices. Some companies stated at the time that they would henceforth treat jobbers and dealers as two distinct and different classes of customers.

Jobbers soon found out what the companies meant. There were times in the early 1980s, especially in the big-city markets, when dealers of a particular company could buy product at or close to what the company was charging jobbers. The jobbers howled, of course, but the companies said they were simply meeting the dealer prices being charged by other large companies.

Not much was heard from the dealers at the time, and for good reason. They had been accustomed to seeing jobbers buy product at 3.5¢ to 4¢ gal. below the dealer tankwagon. They were delighted with the turn of events at that time.

But they aren't now. Recently, according to Bill Ligon, head of the Texas Service Station Assn. Texas dealers who were buying product direct from a major oil company were generally paying from 18¢ to 22¢ gal. more for product than jobbers were paying. A small town dealer could buy product from a jobber, said Ligon, for 54¢ gal. at a time when a dealer buying direct from a company had to pay 70¢ gal.

Some dealers did buy product from jobbers rather than the companies for a short time, says Ligon, but the companies put a stop to this by putting their jobbers on allocation.

"We can't understand why up until the end of last year, 4¢ gal. was considered by the companies to be sufficient for the jobber's functional discount and now they are getting 20¢," says Ligon. "We want the companies to explain their reasoning to the attorney general's office."

Just as the dealers did two or three years ago, the jobbers aren't saying much about the favored position they were in for awhile. "We don't think it will last," said Jerdy Gary, president of the Texas Oil Marketers Assn. "I know the dealers are saying we're having a field day but I remember when they did, too. It has turned around right now but it will settle down."

Some marketers believe, however, that the majors may now have the big city markets in Texas thinned out to where this won't be the last time that retail prices in them are considerably higher than those in small towns.

It is pointed out that many independents have left the big cities for smaller markets and have carried their price-cutting tactics with them. The metropolitan markets in Texas still have a sprinkling of indies here and there, but for the most part, they are now dominated by major brand outlets and convenience store chain units. The C-stores can be fierce competitors but, as TSSA's Ligon says, "they are happy to keep their postings up near the majors if they are making 25¢ to 30¢ gal." *—Marvin Reid*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

FEBRUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.119	$1.034	$1.120	$1.282
Regions:				
Northeast	1.189	1.109	1.173	1.312
North Central	1.076	1.006	1.089	1.249
South	1.115	1.033	1.118	1.265
West	1.117	1.021	1.118	1.296

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	3/28/86	3/29/85
Gasoline (total)	225,468	221,005
Gasoline (Unleaded)*	116,053	102,235
Jet Kerosine	38,898	34,733
Distillates	95,143	100,212
Residual	39,387	44,607

**Included in gasoline total.*
Source: American Petroleum Institute.

Cash Flow Problems Loom as Major Headaches for Gasoline Marketers

Cash flow problems could very easily be the ones that drive many gasoline marketers up the creek or off the wall this summer.

With no end in sight to the continuing erosion of crude oil and refined product prices, the warm weather outlook for gasoline marketers is an incongruous blending of good times and bad—booming demand for product and services and fewer dollars moving in and out of the till to cover operational costs and expenses.

Most of the oil companies have already prepared for a leaner 1986. They've cut billions of dollars from last winter's capital spending plans and programs. One industry estimate is that the total reductions are now around $12 billion—20% to 25% less than had been projected.

Fortunately for marketers, most of the cutting to date has been upstream in the exploration and production sections. Two-thirds to three-fourths of the slashes have been in that area. The fact that downstream operations have been treated more gently attests to the fact that the big companies are acutely aware of the intensifying competition for gallonage and are reluctant to pull back on their modernization, image and expansion plans.

The summer driving season—at least the start of it—is only weeks away. It can be anticipated that gasoline demand will rise this summer as motorists hit the road in record numbers to take advantage of the cheapest gasoline that's been around in 10 to 12 years.

Therein lies the rub. Volume will be up but cash flow will be down significantly. The big question this year will be whether operational costs also can be brought down to match the decreased flow of dollars in and out of the till.

There also has to be a re-assessment of the marketplace itself.

In recent years, with gasoline and fuel oil selling well above $1 gal., a million gallons of either product equated out to a shrug of the shoulders—$1 million or more moving through cash registers.

Prices have plummeted since mid-winter when the international crude oil markets collapsed [*NPN*—March '86, p31].

Gasoline fetched 70¢ to 80¢ gal. in the waning days of March and there were some sections of the country that saw retail postings in the mid- to high-60¢ gal. range. Fuel oil dropped steadily in February and March, too, and some discounters were selling No. 2 at 80¢ gal.

What this means, however, is that the old $1 million worth of product is now producing about 25% to 30% fewer dollars, so its value is only $650,000. The margins of recent vintage seem headed for a paring as one direct result.

The pressure on cash flow is also going to intensify the institutional crisis over liability insurance. Those costs have been escalating in leaps and bounds. The Reagan Administration has made some proposals to ease the liability dilemma but these are not expected to have any effect on policy costs for two or three years.

What happens in the international crude oil markets this summer is going to have a dramatic impact on retail prices for gasoline now and fuel oil next winter.

Crude prices were down to the $10 to $11 bbl. level in late-March and even dipped below that into single digits on April Fool's Day. Saudi Arabia, which precipitated the excesses last October by boosting its output to 4.5 million b/d, was quoted as saying that it has no intention of backing off until the OPEC and non-OPEC countries reach some sort of an agreement on reasonable price and production schedules.

In early-April, there was talk that crude prices could drop as low as $5 bbl.

International analysts said the imbalance in crude oil supplies reached the 5 million b/d mark in early-April.

Industry and financial experts generally agree that the capital spending cuts made by oil companies earlier this year were realistic in the sense that they were needed but, from the long-term viewpoint, only hasten the day in the 1990s when the OPEC states will once again have control of the international markets.

The spending cuts varied from company to company. Exxon, the industry's powerhouse, took the biggest cut of all —$2.8 billion. Of the top 12 companies, only Shell indicated it had no reductions planned.

Of the top dozen oil companies, reductions already in place total $9.8 billion. This is 23% less than had been scheduled for 1986 in the pre-collapse planning days. *NPN*

Oil Companies Cut $9 Billion In Face of Falling Prices

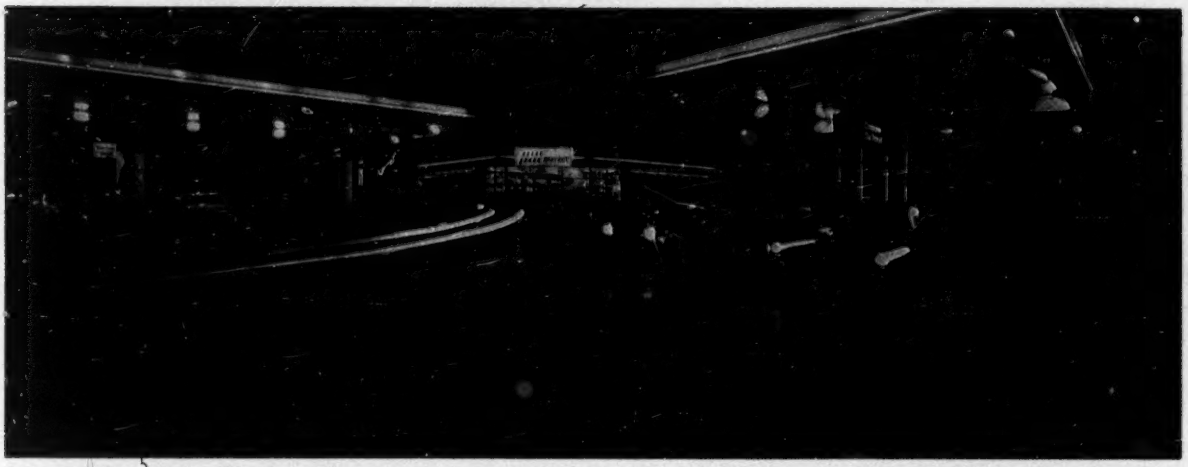
Capital spending cuts totalling roughly $9.8 billion have been programmed for 1986 by 11 of the 12 top oil companies as a direct result of the collapse of the crude oil marketplaces this past winter.

Here's a simplified boxscore which distinguishes only between upstream and downstream operations to indicate where the pruners have done the most cutting:

Company	Original Budget	$$$ Cut	New Budget	% Change	Upstream Share (%)	Downstream Share (%)
			(Billions of dollars)			
Exxon	$10.8	$2.8	$8.0	(26%)	75%	25%
Mobil	4.1	1.1	3.0	(27)	84	16
Texaco	2.8	0.3	3.0	(10)	Mostly Upstream	
Chevron	5.0	1.5	3.5	(30)	65	35
Amoco	5.0	1.5	3.5	(30)	No Breakout Available	
Shell	3.9	No Cuts Planned as of 3/31/86				
Arco	3.0	1.0	2.0	(33)	35	65
Tenneco	1.7	0.4	1.3	(25)	Mostly Upstream	
Standard	2.5	0.2	2.3	(8)	Mostly Upstream	
Phillips	1.4	0.4	1.0	(30)	64	36
Sun	1.6	0.3	1.3	(20)	Mostly Upstream	
Unocal	1.5	0.3	1.2	(20)	83	17
Total	43.3	9.8	30.1	(23)	83	17

Note: Figures and percentages may vary due to rounding off of numbers; also some percentages are estimates rather than hard numbers.

What the Oil Companies Are Doing in C-stores



Arco owns the majority of its am/pm C-stores, which now total about 450 since its withdrawal from the eastern U.S.

For the past decade, the large, integrated oil companies have tended to view convenience stores and their independent operators somewhat disdainfully. While most steadfastly clung to traditional service station concepts, a few were slowly testing the waters.

Now, however, the oil companies are in the grocery business, whether by design or from peer pressure. And while each company takes a decidedly different approach to C-stores, they have made substantial commitments to this form of oil marketing.

The following is a brief look at what each of the largest oil companies are doing in C-stores and how C-stores fit into the company's marketing plan.

AMOCO

Amoco has been in the C-store business six years but declined to release figures on how many exist. As with gallonage and inside volume, Amoco withheld the information for "competitive reasons."

While most of the newer stores share a common appearance, Amoco C-stores have "no uniform design," the company says. Sales items inside vary as do the hours of operation, but many stores do run 24 hours.

The company owns quite a few stores, most of which are dealer-operated.

ARCO

Arco got into the C-store business in 1980. Its goal, at the time, was to have 1,400 to 1,800 "am/pm" stores by 1985 [*NPN*—April '80, p46]. However, in 1985, Arco began its historic retreat to the West, abandoning gasoline marketing (and C-stores) east of the Rockies. Atlantic Petroleum which bought 550 or so Arco stations in Pennsylvania and New York kept the mini-marts and simply converted them over to its own brand.

Arco itself, after the withdrawal, had a total of 1,700 branded stations and 400 C-store outlets. These are all company-owned and operated or operated by lessee-contract dealers. Each of the stores carries about 2,000 to 2,500 items but Arco is currently experimenting with fast foods, such as hot dogs, soft drinks, soft ice cream, sundaes and sodas. "We're out ahead of the field on this," a spokesman said.

Arco declined to give any inside sales figures but the 1980 projections were to have each store doing at least $500,000 by 1983. If that pattern was followed, stores must be over the $600,000 mark by now. Arco says its stations are averaging 170,000 gal./month.

Most of the stations are 24-hour operations but there are a few with 12- to 18-hour schedules.

Company says am/pm stores average about 2,000 sq. ft. When stores are new and built from ground up, Arco shoots for 2,400 sq. ft.

CHEVRON

Chevron has about 300 C-stores. While their jobbers have been in it a little longer, Chevron has only been in the business for two years. Company jobbers run about 800 C-stores. Of the 300 company-owned outlets, about 25 are operated by Chevron. In fact, the company says when it tears down and rebuilds a site, a dealer is usually found to operate it. Gulf operates some 400 C-stores.

Most of the stores are island marketer type of about 900 sq. ft. Generally, they fall into three sizes: 250 (mini-mart), 400 sq. ft. (maxi-mart) and 900. Volume and gallonage were not available. Most operate 24 hours. They sell groceries, snacks, soda, coffee, microwave food and hot dogs.

Chevron says it will probably double the number of C-stores it has in the next two years, depending on oil prices, as it is in the middle of a five-year program.

MOBIL

The company declined to provide details on the number of C-stores it has. It moved into C-store retailing in 1977 and today its most common offering is the 900-sq. ft. "Mobil Mart."

The typical design has four pump islands covered by rectangular canopy, with a 24 x 38-ft. building, centered partially under the new canopy. They are open 18 to 24 hours and sell prepackaged food sized for "individual consumption." Mobil says it "doesn't see itself as primarily in convenience stores. "We aren't out to compete with Southland. We're primarily in the business of selling gasoline," a spokesman says.

TEXACO

One of the first major oil companies to become involved directly with small con-

By Dan Larson and Angel Abcede

venience stores, Texaco began its C-store building program in the late-1970s. Later its C-store plans were incorporated into its innovative System 2000 redesign program.

Now, Texaco's "Food Marts" average 150,000 gal./month. Of the directly supplied stores, about 25% are open 24 hours, while the remainder operate 16 hours/day. While it "does not encourage" deli-type food offerings, some of its jobbers do offer deli goods. The company says its jobbers operate some 1,600 Food Marts.

SHELL

Company disclosed very little information about its "Food Mart" operations, saying only that sales and gasoline volume figures were "proprietary."

Dealers are said to operate "just about all" of the Shell Food Marts now open.

EXXON

Probably the last of the major oil companies to jump into convenience stores [*NPN*—Jan. '86, p19], Exxon said it had 97 "Exxon Shops" in the Southeast and Gulf Coast at the end of last year. Now, it is believed there are some 120 such stores in operation. Costs are believed to run in the $500,000 per outlet range.

It claims that over half of the area in an Exxon shop is devoted to selling space and product lines include traditional fast-turn items plus packaged sandwiches, hot dogs and beer, where legal. Almost all are 24-hour operations.

ASHLAND/SUPERAMERICA

From the beginning very gung ho about C-stores, Ashland remains a step ahead of the field. The "newer" SuperAmerica stores are about 3,200 sq. ft. which makes them a bit larger than the industry average of around 2,000 sq. ft. Bigger size enables these stores to carry 3,000 or more products. SuperAmerica currently has 360 stores and is in the second year of a five-year program to add 50 new stores per year. Thus, it is looking at around 500 to 550 stores by 1988.

All of the stores are branded SuperAmerica and are direct-operated "except for a handful of jobber stores . . . less than 10, all told," says a spokesman.

Stores are predominantly 24-hour operations and are all in "good locations." "We have a lot of smaller stations with low gallonage where stores of this type wouldn't fit," according to a spokesman. Company refused to discuss gallonage or inside dollar sales. "Carefully guarded proprietary information," he says.

Stores run the gamut from basic groceries, to snacks, to bakeries and some even handle liquor. Some do "very well" on automotive and aftermarket products.

SuperAmerica has played around with some fast foods but it generally sticks to the basics. It got into C-stores in 1970 when it bought Northwest Refining, which had around 200 stores.

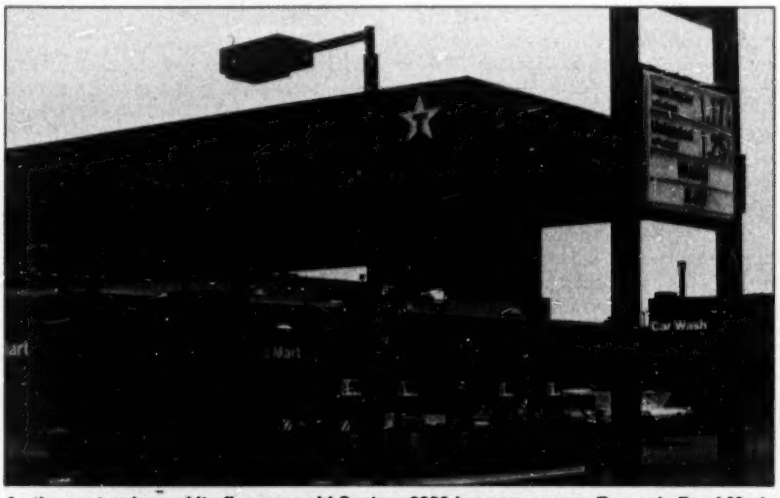
CONOCO

The company markets gasoline through Kayo Oil Co., which it owns. Kayo, with 500 stores in 24 states, markets under the Jet brand. Conoco bought Kayo in 1959, but Conoco had already begun selling cigarettes and considered its move into C-stores an "evolutionary process."

Conoco has 1,650 jobber-run C-stores. Gallonage and inside sales were not available. As for hours of operation, generally daytime hours with many running 24 hours.

DIAMOND SHAMROCK

The company has about 1,000 branded C-stores, 440 of which are direct-oper-



As the centerpiece of its five-year-old System 2000 image program, Texaco's Food Marts average 1,000 sq. ft., and are said to move some 150,000 gal./month in motor fuel.

Oil Companies C-store Boxscore

Major Oil Company	Number of C-stores	Number Direct-Operated	Average Size (sq. ft.)
Arco	450	—	2,000
Amoco	—	—	—
Chevron	1,100	300 (Chevron) 400 (Gulf)	900
Exxon	97	53	1,100
Mobil	—	—	900
Shell	400	25	1,200
Texaco	750	—	1,000
Ashland	360	350	3,200
Conoco	2,150	500	—
Marathon	455	—	2,000
Phillips	3,385	40	1,500
Sohio	—	—	—
Sun	668	318	1,800
Unocal	2,300	125	1,200

Secondary brands operate Marathon's C-stores.

ated. Jobbers and dealers operate 560 outlets. The company has been in the C-store business since the early 1970s, about 15 years in all.

The average size C-store ranges between 800 and 1,600 sq. ft., some complete with delis. Most stores are open 16 hours, while some are open 18 hours.

MARATHON

Marathon currently has 455 C-stores in operation. It added 15 in 1985 and picked up 60 more when it took over Globe Oil in the southeast [*NPN*—Feb. '86, p15]. It plans to add at least a dozen more stores to the Globe chain in 1986.

Marathon looks at C-stores as a viable growth operation. However, none of the stores are dealer or jobber-operated or fly the Marathon brand. All are direct-owned and direct-operated by the various secondary brands under Marathon, such as Cheker, Speedway, Globe and Port. Marathon says its policy is and always has been to retain the name of the secondary brand.

The stores range in size from 1,000 sq. ft. to 3,000 sq. ft., depending on the location and the market area potential. The majority, however, are in the 1,000-sq. ft. class. They sell a variety of products, including fast foods and wine/beer, where legal. Marathon would not release figures on gasoline volumes or "inside" sales volumes or dollars.

Hours of operations vary from market to market. Some are 24-hour stores, some 12-hour. Marathon got into the C-store business about eight to 10 years ago with the first unit in Terre Haute, Ind. Been growing slowly but steadily since then.

PHILLIPS

About 40 Phillips C-stores are company-operated while 3,345 are operated by jobbers. Though the jobbers have been into C-stores much longer, Phillips itself has been direct marketing through C-stores since 1983. Of the 40 stations, 33 are smaller island marketers, (750 sq. ft.), and seven are larger (2,000 to 2,400 sq. ft.).

The company averages $25,000 a month in inside sales, with most stores being open 24 hours. Company officials still consider direct-operated store program too "small and new" to make strong projections.

From the beginning, Ashland's SuperAmerica has taken a different approach to C-stores. With currently 360 stores, SuperAmerica is working to add 50 new stores per year.

SUN

Sun runs 316 "Stop-N-Go" C-stores and 20 Sun Marts. Of the Stop-N-Go stores, 161 have gasoline. All are company-operated. There are 332 franchised Stop-N-Gos. Generally, the stores have 1,800 sq. ft. of sales space.

The company has been in C-stores for 10 years, and today, the stores operate 24 hours, with most serving sandwiches, hot dogs and deli products.

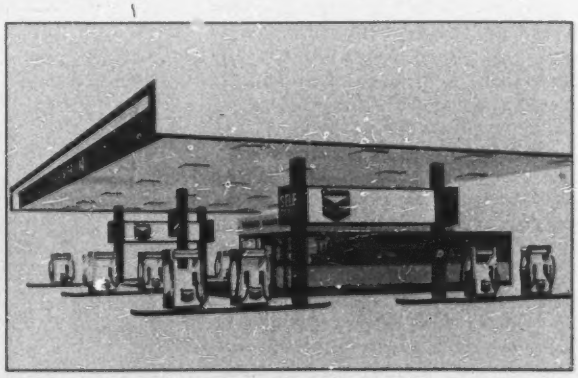
UNOCAL

The company has 2,300 C-stores in its East Region. Of these only 125 are direct-operated. The remainder are either jobber run or operated by dealers. The company built 12 new stores in 1985.

The stores range in size from 300 to 2,000 sq. ft., and they run from 18 to 24 hours.

They sell 3,000 items including dairy products, soft drinks, personal health care items, tobacco, fast food and automotive products. NPN

The majority of Unocal's 2,300 East region C-stores are jobber-operated and range from 300 to 2,000 sq. ft.



Another latecomer to company-built C-stores, Chevron now has some 300 island marketer-type stores.